

NMRC STUDY: CITY-RUN WI-FI HYPE DOESN'T PASS MUSTER, EXPERTS WARN
OF "GRAVE FLAWS" THAT COULD WELL LEAVE TAXPAYERS WITH HEAVY FINANCIAL BURDEN

WASHINGTON, D.C.//February 3, 2005//City-run wireless broadband networks (Wi-Fi)- such as those now under discussion in Chicago, Philadelphia, Las Vegas, New York, and San Francisco - are being hyped on the strength of dubious claims about benefits and have faced almost no hard-nosed feasibility studies, according to a major New Millennium Research Council (NMRC) report compiled by six leading scholars and telecommunications policy experts. The NMRC report authors warn that "beneath the positive media coverage and glowing press pronouncements are troubling signs that these publicly held networks can result in less than anticipated outcomes," leaving taxpayers to fund outdated technology from already strained city budgets.

The NMRC report authors conclude: "... municipal Wi-Fi networks present a number of serious problems that are being overlooked as cities rush into committing millions in taxpayer dollars to pay for network development and expansion ... [W]hile the intentions of city officials and administrators are admirable, the roll-out of municipally held Wi-Fi networks will likely have a detrimental affect on city budgets and on competition in the telecommunications industry, and fail to produce the economic growth and jobs promised by municipal leaders. ... [C]ity ownership of Wi-Fi networks is not the solution for bridging the Digital Divide or encouraging competition in the broadband market."

According to the NMRC contributing scholars, among the "grave flaws" in city-run Wi-Fi schemes are the following: potential major cost overruns that would draw more taxpayer dollars away from other city priorities; damage to legitimate commercial broadband competition resulting from taxpayer-subsidized municipal entry; a lack of evidence that economic development and jobs will result from publicly funded citywide wi-fi systems; the fact that nearly all previous municipal attempts to deploy broadband networks have failed; and a disturbing reliance by proponents on unsubstantiated "if you build it, they will come" assumptions that are at the heart of most city-run Wi-Fi scenarios.

In his contribution, U.S. Internet Industry Association President and CEO David P. McClure details the numerous expenses that cities will face to operate a Wi-Fi network, expenses not often discussed in the media. He states: "Municipal broadband networks are most frequently described in terms of the cost to build the network, and a cost to operate the networks if all economic conditions come to pass. But such accounting overlooks major elements of the cost of operations as well as the hidden cost of lost opportunities. For example, the projected budgets seldom cover the administrative costs of billing and contracts; the costs of a fully staffed Network Operations Center with redundant backup and power; the cost of compliance with the myriad of state and federal laws visited upon broadband networks; or the cost of maintenance and replacement."

In his article, Competitive Enterprise Institute Technology Counsel Braden Cox cautions that cities are focusing solely on the start-up costs of Wi-Fi networks and ignoring the long term financial commitments. He writes: "Indeed, it is the low initial costs that are attractive to municipalities. The real costs may well accrue with ongoing maintenance, upgrades, and for billing and collection of payment from users in those localities that charge a fee for access."

The Heartland Institute Senior Fellow for IT and Telecom Policy Steven Titch challenges the assertions by some cities that competition is lacking, there are an insufficient numbers of providers, and consequently that the city must deliver the service to its constituents. He notes: "While city officials often

present the commercial side of the [broadband] business as concentrated in the hands a handful of large corporations, commercial Wi-Fi service providers actually run the gamut from nationwide telecom companies such as T-Mobile and SBC to specialists such as Boingo Wireless, Clearwire, Airpath, and iPass. There are also scores of independent entrepreneurial local operators such as FaceFive in Chicago supplying service to locally owned coffee shops, restaurants and bookstores."

David Tuerck, Executive Director of the Beacon Hill Institute, notes: "The introduction of government ownership in a competitive market ... poses an enormous threat to this process that is not posed by the entry of a private provider. If a private provider gets into financial trouble because another provider offers a superior product or lower prices, the trouble is borne mainly by the stockholders and employees of the losing provider. If a government provider gets into the same trouble, however, it is the taxpayer or, in the case of municipal electric utilities, the ratepayer who is at risk."

Addressing the effect on competition from the regulatory advantages possessed by city-funded networks, Dr. Ron Rizzuto, Professor of Finance at the University of Denver, states, "If the city is allowed to price its service below cost and use its taxing authority to subsidize the municipal operation, the private sector will have no incentive to reinvest in its network."

Tom Giovanetti, President of the Institute for Policy Innovation (IPI) questions assertions that the city can be the most efficient provider of broadband services: "Governments have found tremendous cost savings by contracting out traditional government functions...They have found that the best way to get needed services to the people is through market forces, not through government command and control. The movement toward municipal networks, then, is counter to this experience and observation."

While most news coverage to date has uncritically touted the cities' rosy vision of economic booms, McClure points out there is no evidence that actually supports such widely made claims. He writes: "Though it is often cited as a benefit, econometric data shows no specific link between broadband availability and economic development. This may be because any business in the United States that needs or wants broadband connectivity can already have it via existing telephony, cable, satellite, or wireless providers. But it is also related to the fact that connectivity alone does not create a significant impact on the core determinants of economic growth: an increase in employment or an increase in the personal incomes of residents."

For the full NMRC report, go to <http://www.thenmrc.org> on the Web.

ABOUT NMRC

The New Millennium Research Council (NMRC) is composed of a network of policy experts who develop workable, real-world solutions to the issues and challenges confronting policymakers. Its work has focused primarily in the fields of telecommunications and technology. For more information, please visit: <http://www.thenmrc.org>.

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EDITOR'S NOTE: A streaming audio replay of a related phone-based news conference and related documents will be available on the Web at <http://www.thenmrc.org>.